

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Sharon L. Vargo</i>	Printed Name		License Number	

# **Village of Berrien Springs, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2007**

# Village of Berrien Springs, Michigan

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## Independent Auditor's Report

To the Village Council  
Village of Berrien Springs, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Berrien Springs (the "Village") as of and for the year ended June 30, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Berrien Spring's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village of Berrien Springs as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Village Council  
Village of Berrien Springs, Michigan

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated September 21, 2007 on our consideration of the Village's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

September 21, 2007

# **Village of Berrien Springs, Michigan**

## **Management's Discussion and Analysis**

Our discussion and analysis of the Village of Berrien Springs, Michigan's financial performance provides an overview of the Village's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the Village's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

- State-shared revenue, the General Fund's second largest revenue source, was decreased again this year. The Village management reacted by continuing to keep expenses at a minimum where possible.
- The Village continued its long-term investment in its wastewater treatment system. During the year, the Village broke ground on the highly anticipated project. This project will be funded by a USDA Rural Development loan of \$6,967,000 and a grant of \$3,000,000.
- The Downtown Revitalization Project began in April 2007. MDOT approved a Transportation Enhancement Grant award to the Village in the amount of \$343,680 for this project, for which total expenditures are estimated at \$826,000. The CDBG also awarded a \$200,000 grant to the Village for the project.
- The Village finalized the Highland Estates Improvements Project during the year. Total expenditures for this project were approximately \$355,000.
- The Fisher Court Watermain Improvements Project construction contract was awarded to Northern Construction in the amount of \$166,945. The project was almost complete at the end of the fiscal year.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds.

# Village of Berrien Springs, Michigan

## Management's Discussion and Analysis (Continued)

### The Village as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior two fiscal years:

	Governmental Activities			Business-type Activities			Total		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
<b>Assets</b>									
Current assets	\$ 3,687,719	\$ 3,370,332	\$ 2,782,554	\$ 1,187,116	\$ 577,753	\$ 692,118	\$ 4,874,835	\$ 3,948,085	\$ 3,474,672
Noncurrent assets	<u>1,772,732</u>	<u>2,146,457</u>	<u>2,105,153</u>	<u>11,006,298</u>	<u>4,166,864</u>	<u>3,689,348</u>	<u>12,779,030</u>	<u>6,313,321</u>	<u>5,794,501</u>
Total assets	5,460,451	5,516,789	4,887,707	12,193,414	4,744,617	4,381,466	17,653,865	10,261,406	9,269,173
<b>Liabilities</b>									
Current liabilities	50,387	73,236	52,648	1,389,332	438,442	377,097	1,439,719	511,678	429,745
Long-term liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,568,504</u>	<u>494,882</u>	<u>526,416</u>	<u>6,568,504</u>	<u>494,882</u>	<u>526,416</u>
Total liabilities	<u>50,387</u>	<u>73,236</u>	<u>52,648</u>	<u>7,957,836</u>	<u>933,324</u>	<u>903,513</u>	<u>8,008,223</u>	<u>1,006,560</u>	<u>956,161</u>
<b>Net Assets</b>									
Invested in capital assets -									
Net of related debt	1,772,732	1,619,582	1,606,712	4,358,280	3,640,448	2,911,398	6,131,012	5,260,030	4,518,110
Restricted	1,054,547	1,063,471	845,421	61,294	59,321	239,394	1,115,841	1,122,792	1,084,815
Unrestricted	<u>2,582,785</u>	<u>2,760,500</u>	<u>2,382,926</u>	<u>(183,996)</u>	<u>111,524</u>	<u>327,161</u>	<u>2,398,789</u>	<u>2,872,024</u>	<u>2,710,087</u>
Total net assets	<u>\$ 5,410,064</u>	<u>\$ 5,443,553</u>	<u>\$ 4,835,059</u>	<u>\$ 4,235,578</u>	<u>\$ 3,811,293</u>	<u>\$ 3,477,953</u>	<u>\$ 9,645,642</u>	<u>\$ 9,254,846</u>	<u>\$ 8,313,012</u>

The Village's combined net assets increased 4 percent from a year ago - increasing from \$9,254,846 to \$9,645,642. As we look at the governmental activities separately from the business-type activities, we can see that governmental activities net assets decreased 0.6 percent from \$5,443,553 to \$5,410,064, while business-type activities increased 11 percent from \$3,811,293 to \$4,235,578.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - decreased by \$177,715 for the governmental activities. This represents an decrease of approximately 6 percent. The current level of unrestricted net assets for our governmental activities stands at \$2,582,785. This is within the targeted range set by the Village during its last budget process.

# Village of Berrien Springs, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in the net assets during the current year and as compared to the prior two fiscal years:

	Governmental Activities			Business-type Activities			Total		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
<b>Revenue</b>									
Program revenue:									
Charges for services	\$ 315,939	\$ 327,143	\$ 188,280	\$ 1,235,012	\$ 1,029,112	\$ 995,834	\$ 1,550,951	\$ 1,356,255	\$ 1,184,114
Operating grants and contributions	129,401	139,242	131,585	-	-	-	129,401	139,242	131,585
Capital grants and contributions	-	-	318,509	-	-	-	-	-	318,509
General revenue:									
Property taxes	595,284	558,249	540,845	-	-	-	595,284	558,249	540,845
State-shared revenue	178,696	180,784	182,397	-	-	-	178,696	180,784	182,397
Unrestricted investment earnings	127,074	79,070	53,068	55,760	30,799	13,932	182,834	109,869	67,000
Miscellaneous	66,800	66,866	72,908	-	-	-	66,800	66,866	72,908
Total revenue	1,413,194	1,351,354	1,487,592	1,290,772	1,059,911	1,009,766	2,703,966	2,411,265	2,497,358
<b>Program Expenses</b>									
General government	283,413	247,569	164,967	-	-	-	283,413	247,569	164,967
Public safety	241,276	154,288	105,446	-	-	-	241,276	154,288	105,446
Public works	246,116	189,049	413,684	-	-	-	246,116	189,049	413,684
Recreation and culture	149,003	151,954	168,796	-	-	-	149,003	151,954	168,796
Contributions	526,875	-	-	-	-	-	526,875	-	-
Water and sewer	-	-	-	866,491	726,571	769,902	866,491	726,571	769,902
Total program expenses	1,446,683	742,860	852,893	866,491	726,571	769,902	2,313,174	1,469,431	1,622,795
<b>Change in Net Assets</b>	<b>\$ (33,489)</b>	<b>\$ 608,494</b>	<b>\$ 634,699</b>	<b>\$ 424,281</b>	<b>\$ 333,340</b>	<b>\$ 239,864</b>	<b>\$ 390,792</b>	<b>\$ 941,834</b>	<b>\$ 874,563</b>



# **Village of Berrien Springs, Michigan**

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## **Management's Discussion and Analysis (Continued)**

During the past fiscal year, governmental activities revenues increased from \$1,351,354 to \$1,413,194 or approximately 5 percent, while governmental program expenses increased approximately \$700,000. Much of this increase relates to the dissolution of the police joint venture with Oronoko Township, which resulted in approximately \$527,000 of contribution expense for the governmental activities in current year.

Business-type activities revenues increased approximately 22 percent, while expenses also increased by approximately 19 percent. The most significant revenue increase was the increase in charges for services, which relates to the Village's rate increase for the construction of the new Waste Water Treatment Plant.

### **Governmental Activities**

Property taxes increased slightly due to valuation increases.

### **Business-type Activities**

The Village's business-type activities consist of the Water and Sewer Fund. We provide water and sewer to residents through Village-owned and operated wells and sewage treatment plant.

### **Water Operating Fund**

A water and sewer rate study was completed in January 2003. Using a proposed cost allocation between the customer, commodity, and demand charges, an annual increase of approximately 6.0 percent per year for five years was instituted.

### **Sewer Fund**

The water and sewer rate study completed in January 2003 recommended an average of 8 percent to 10 percent annual increase in sewer rates over a five-year time span, which was approved. Annual projected surpluses would build up the Sewer Fund's cash reserves, which have been depleted.

# **Village of Berrien Springs, Michigan**

## **Management's Discussion and Analysis (Continued)**

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### **The Village's Funds**

Our analysis of the Village's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2007 include the General Fund, the Major and Local Streets Funds, and the Waste Water and Water Operating Funds.

### **Budgetary Highlights**

Over the course of the year, the Village did not amend the budget for the General, Major Streets, and Local Streets Funds. Full budget to actual statements for these funds are included as pages 31 through 33 of this report.

### **Capital Asset and Debt Administration**

During the year, the Village issued debt in the amount of \$6,176,000 to assist in funding the construction of the new Waste Water Treatment Plant. This project was still ongoing at June 30, 2007 and is shown as construction in progress.

### **Economic Factors and Next Year's Budgets and Rates**

The Village's fiscal 2008 budget anticipates additional cuts in state-shared revenue. The Village anticipates the receipt of \$3,000,000 of money from a Rural Development Grant for the Waste Water Treatment Plant project during fiscal 2008. The Village also budgeted for the annual debt service of the debt related to the new Waste Water Treatment Plant, which begins in fiscal 2008.

The Village increased water and sewer rates during fiscal 2007 and continues to watch water and sewer revenue and expense trends for possible additional increases in the future.

### **Contacting the Village's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# Village of Berrien Springs, Michigan

## Statement of Net Assets June 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 2,354,846	\$ 880,935	\$ 3,235,781
Investments (Note 3)	1,173,997	-	1,173,997
Customer accounts receivable - Net	17,510	331,912	349,422
Due from other governmental units	44,717	-	44,717
Internal balances	96,649	(96,649)	-
Prepaid costs and other assets	-	9,624	9,624
Restricted assets - Debt service	-	61,294	61,294
Capital assets - Net (Note 4):			
Assets subject to depreciation	1,412,273	2,450,160	3,862,433
Assets not subject to depreciation	360,459	8,556,138	8,916,597
Investment in joint venture (Note 1)	-	-	-
Total assets	5,460,451	12,193,414	17,653,865
<b>Liabilities</b>			
Accounts payable	43,697	830,502	874,199
Accrued and other liabilities	-	456,452	456,452
Accrued employee benefits -			
Due within one year (Note 6)	6,690	-	6,690
Noncurrent liabilities (Note 6):			
Due within one year	-	102,378	102,378
Due in more than one year	-	6,568,504	6,568,504
Total liabilities	50,387	7,957,836	8,008,223
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	1,772,732	4,358,280	6,131,012
Restricted for streets and highways	1,054,547	-	1,054,547
Restricted for debt service	-	61,294	61,294
Unrestricted	2,582,785	(183,996)	2,398,789
Total net assets	<u>\$ 5,410,064</u>	<u>\$ 4,235,578</u>	<u>\$ 9,645,642</u>

# Village of Berrien Springs, Michigan

		Program Revenues	
		Charges for	Operating Grants and Contributions
	Expenses	Services	
<b>Functions/Programs</b>			
Governmental activities:			
General government	\$ 283,413	\$ 100,000	\$ -
Public safety	241,276	6,018	-
Public works	246,116	95,791	129,401
Recreation and culture	149,003	114,130	-
Contributions - Public safety	526,875	-	-
Total governmental activities	1,446,683	315,939	129,401
Business-type activities:			
Water	355,022	504,046	-
Sewer	511,469	730,966	-
Total business-type activities	866,491	1,235,012	-
Total primary government	<u>\$ 2,313,174</u>	<u>\$ 1,550,951</u>	<u>\$ 129,401</u>
General revenues:			
Property taxes			
State-shared revenues			
Unrestricted investment earnings			
Miscellaneous			
Total general revenues			
<b>Change in Net Assets</b>			
<b>Net Assets - Beginning of year</b>			
<b>Net Assets - End of year</b>			

**Statement of Activities**  
**Year Ended June 30, 2007**

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (183,413)	\$ -	\$ (183,413)
(235,258)	-	(235,258)
(20,924)	-	(20,924)
(34,873)	-	(34,873)
(526,875)	-	(526,875)
(1,001,343)	-	(1,001,343)
-	149,024	149,024
-	219,497	219,497
-	368,521	368,521
(1,001,343)	368,521	(632,822)
595,284	-	595,284
178,696	-	178,696
127,074	55,760	182,834
66,800	-	66,800
967,854	55,760	1,023,614
(33,489)	424,281	390,792
5,443,553	3,811,297	9,254,850
<b><u>\$ 5,410,064</u></b>	<b><u>\$ 4,235,578</u></b>	<b><u>\$ 9,645,642</u></b>

# Village of Berrien Springs, Michigan

## Governmental Funds Balance Sheet June 30, 2007

	General Fund	Major Streets Fund	Local Streets Fund	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 2,462,934	\$ 607,086	\$ 458,823	\$ 3,528,843
Receivables - Net	17,510	-	-	17,510
Due from other governmental units	24,800	13,600	6,317	44,717
Due from other funds	96,649	-	-	96,649
Total assets	<u>\$ 2,601,893</u>	<u>\$ 620,686</u>	<u>\$ 465,140</u>	<u>\$ 3,687,719</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b> - Accounts payable	\$ 12,418	\$ 600	\$ 30,679	\$ 43,697
<b>Fund Balances</b> - Unreserved, reported in				
General Fund	2,364,475	-	-	2,364,475
Special Revenue Funds	-	620,086	434,461	1,054,547
Designated for future police expenditures	225,000	-	-	225,000
Total fund balances	<u>2,589,475</u>	<u>620,086</u>	<u>434,461</u>	<u>3,644,022</u>
Total liabilities and fund balances	<u>\$ 2,601,893</u>	<u>\$ 620,686</u>	<u>\$ 465,140</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds				1,772,732
Long-term liabilities are not due and payable in the current period and are not reported in the funds				(6,690)
Net assets of governmental activities				<u>\$ 5,410,064</u>

# Village of Berrien Springs, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	General Fund	Major Streets Fund	Local Streets Fund	Total Governmental Funds
<b>Revenue</b>				
Property taxes	\$ 448,182	\$ -	\$ 147,102	\$ 595,284
State-shared revenues and grants	178,696	90,603	38,798	308,097
Licenses and permits	6,018	-	-	6,018
Charges for services	278,476	-	-	278,476
Fines and forfeitures	1,214	-	-	1,214
Interest and rentals	86,401	27,493	14,461	128,355
Other	95,644	2	104	95,750
Total revenue	1,094,631	118,098	200,465	1,413,194
<b>Expenditures</b>				
General government	281,858	-	-	281,858
Public safety	185,214	-	-	185,214
Public works	26,809	73,865	388,917	489,591
Recreation and culture	116,054	-	-	116,054
Total expenditures	609,935	73,865	388,917	1,072,717
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	484,696	44,233	(188,452)	340,477
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	53,765	81,531	135,296
Transfers out	(135,296)	-	-	(135,296)
Total other financing sources (uses)	(135,296)	53,765	81,531	-
<b>Net Change in Fund Balances</b>	349,400	97,998	(106,921)	340,477
<b>Fund Balances - Beginning of year</b>	2,240,075	522,088	541,382	3,303,545
<b>Fund Balances - End of year</b>	<u>\$ 2,589,475</u>	<u>\$ 620,086</u>	<u>\$ 434,461</u>	<u>\$ 3,644,022</u>

# Village of Berrien Springs, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007**

**Net Change in Fund Balances - Total Governmental Funds** \$ 340,477

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Current year capital additions	307,076
Current year allocation of depreciation	(125,105)
Current year net capital disposals	(28,822)
Dissolution of police joint venture	(526,875)

Increase in accumulated employee vacation pay is recorded when earned in the statement of activities	(240)
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**Change in Net Assets of Governmental Activities** \$ (33,489)



# Village of Berrien Springs, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2007

	Waste Water Fund	Water Operating Fund	Total Enterprise Funds
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 346,315	\$ 534,620	\$ 880,935
Receivables - Net	197,053	134,859	331,912
Prepaid costs and other assets	-	9,624	9,624
Total current assets	543,368	679,103	1,222,471
Noncurrent assets:			
Restricted assets	-	61,294	61,294
Capital assets	9,084,439	1,921,859	11,006,298
Total noncurrent assets	9,084,439	1,983,153	11,067,592
Total assets	9,627,807	2,662,256	12,290,063
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	586,626	243,876	830,502
Accrued and other liabilities	354,588	5,995	360,583
Customer deposits payable	-	95,869	95,869
Due to other funds	96,649	-	96,649
Current portion of long-term debt	74,689	27,689	102,378
Total current liabilities	1,112,552	373,429	1,485,981
Noncurrent liabilities - Long-term debt - Net of current portion	6,226,252	342,252	6,568,504
Total liabilities	7,338,804	715,681	8,054,485
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	2,806,362	1,551,918	4,358,280
Restricted - Debt service	-	61,294	61,294
Unrestricted	(517,359)	333,363	(183,996)
Total net assets	\$ 2,289,003	\$ 1,946,575	\$ 4,235,578

# Village of Berrien Springs, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2007

	Waste Water Fund	Water Operating Fund	Total Enterprise Funds
<b>Operating Revenue</b>			
Sale of water	\$ -	\$ 467,692	\$ 467,692
Sewage disposal charges	717,871	-	717,871
Hydrant rental	-	15,000	15,000
Interest and penalty charges	5,921	6,727	12,648
Other charges for services	7,174	14,627	21,801
Total operating revenue	730,966	504,046	1,235,012
<b>Operating Expenses</b>			
Salaries	108,963	90,471	199,434
Fringe benefits	28,075	36,193	64,268
Utilities	23,241	5,087	28,328
Materials, supplies, and freight	21,731	21,133	42,864
Contractual services	5,582	8,654	14,236
Insurance	9,408	6,224	15,632
Repairs and maintenance	18,529	22,148	40,677
Depreciation	209,996	55,769	265,765
Administrative fees	50,000	50,000	100,000
Other	28,946	37,986	66,932
Total operating expenses	504,471	333,665	838,136
<b>Operating Income</b>	226,495	170,381	396,876
<b>Nonoperating Revenue (Expense)</b>			
Investment income	23,065	32,695	55,760
Interest expense	(6,998)	(21,357)	(28,355)
Total nonoperating revenue	16,067	11,338	27,405
<b>Change in Net Assets</b>	242,562	181,719	424,281
<b>Net Assets - Beginning of year</b>	2,046,441	1,764,856	3,811,297
<b>Net Assets - End of year</b>	<u>\$ 2,289,003</u>	<u>\$ 1,946,575</u>	<u>\$ 4,235,578</u>

# Village of Berrien Springs, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Waste Water Fund	Water Operating Fund	Total Enterprise Funds
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 673,861	\$ 485,119	\$ 1,158,980
Payments to suppliers	(405,764)	(194,749)	(600,513)
Payments to employees	(137,038)	(126,664)	(263,702)
Net cash provided by operating activities	131,059	163,706	294,765
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchase of capital assets	(5,693,258)	(241,287)	(5,934,545)
Proceeds from bond issuance	6,176,000	-	6,176,000
Principal and interest paid on capital debt	(12,765)	(47,124)	(59,889)
Internal activity - Payments to other funds	(277,786)	-	(277,786)
Net cash provided by (used in) capital and related financing activities	192,191	(288,411)	(96,220)
<b>Cash Flows from Investing Activities - Interest received</b>	23,065	32,695	55,760
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	346,315	(92,010)	254,305
<b>Cash and Cash Equivalents - Beginning of year</b>	-	687,924	687,924
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 346,315</u>	<u>\$ 595,914</u>	<u>\$ 942,229</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 346,315	\$ 534,620	\$ 880,935
Restricted cash	-	61,294	61,294
Total cash and cash equivalents	<u>\$ 346,315</u>	<u>\$ 595,914</u>	<u>\$ 942,229</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ 226,495	\$ 170,381	\$ 396,876
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	209,996	55,769	265,765
Changes in assets and liabilities:			
Receivables	(57,105)	(20,167)	(77,272)
Accounts payable	(245,846)	(43,799)	(289,645)
Accrued and other liabilities	(2,481)	282	(2,199)
Deposits payable	-	1,240	1,240
Net cash provided by operating activities	<u>\$ 131,059</u>	<u>\$ 163,706</u>	<u>\$ 294,765</u>

**Noncash Activities** - During the year, there were no significant noncash operating, capital, financing, or investing activities.

# **Village of Berrien Springs, Michigan**

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## **Notes to Financial Statements June 30, 2007**

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Village of Berrien Springs, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Berrien Springs, Michigan:

#### **Reporting Entity**

The Village of Berrien Springs, Michigan is governed by an elected seven-member council. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

#### **Jointly Governed Organizations**

The fire department of the Village, not a legally separate entity, is jointly operated with Oronoko Township (the "Township"). All fire expenditures are shared between the two units. The Village's share of capital assets is included in the governmental activities capital assets on the government-wide statement of net assets.

The Village, along with Oronoko Township, had been a member of the Berrien Springs - Oronoko Township Police Department. On November 14, 2006, the Oronoko Township Board voted to terminate the agreement with the Village and assumed control of and responsibility for police protection services for both the Township and the Village. Because the Village will continue to receive services, its equity interest of \$526,875 was contributed to the Township.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

# Village of Berrien Springs, Michigan

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## Notes to Financial Statements June 30, 2007

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, if applicable, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

**General Fund** - The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets Fund** - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

# Village of Berrien Springs, Michigan

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## Notes to Financial Statements June 30, 2007

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Local Streets Fund** - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

The Village reports the following major proprietary funds:

**Waste Water Fund** - The Waste Water Fund accounts for the activities of the sewage collection system.

**Water Operating Fund** - The Water Operating Fund accounts for the activities of the water distribution system.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water/waste water function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Waste Water Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

# Village of Berrien Springs, Michigan

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## Notes to Financial Statements June 30, 2007

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 16, at which time penalties and interest are assessed.

The 2006 taxable valuation of the Village totaled approximately \$42.1 million, on which taxes levied consisted of 10.4306 mills for operating purposes and 3.4539 mills for street repair and maintenance. This resulted in approximately \$440,000 for operating and \$145,000 for street repair and maintenance. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Special Revenue Fund, and Enterprise Funds is generally allocated to each fund using a weighted average.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - The revenue bonds of the Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

# Village of Berrien Springs, Michigan

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## Notes to Financial Statements June 30, 2007

### Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	7 to 25 years
Water and sewer distribution systems	6 to 40 years
Buildings and building improvements	10 to 40 years
Vehicles	5 to 15 years
Office furnishings, machinery, and equipment	5 to 10 years

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.



# Village of Berrien Springs, Michigan

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## Notes to Financial Statements June 30, 2007

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Roads and sidewalks	7 to 25 years
Water and sewer distribution systems	6 to 40 years
Buildings and building improvements	10 to 40 years
Vehicles	5 to 15 years
Office furnishings, machinery, and equipment	5 to 10 years

**Net Asset Deficit** - While the Village has net assets in the Waste Water Fund, it has an unrestricted net asset deficit at June 30, 2007.

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village has designated two financial institutions for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in instruments allowed by Public Act 20. The Village's deposits and investment policies are in accordance with statutory authority.

# Village of Berrien Springs, Michigan

## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments (Continued)

The Village's cash and investments are subject to custodial credit risk, which is examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a financial institution failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had \$5,646,091 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 4 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 288,641	\$ -	\$ -	\$ 288,641
Construction in progress	72,140	269,390	269,712	71,818
Subtotal	360,781	269,390	269,712	360,459
Capital assets being depreciated:				
Roads and sidewalks	506,140	303,843	-	809,983
Buildings and improvements	716,774	-	25,000	691,774
Vehicles	312,652	-	49,168	263,484
Office furnishings and equipment	669,461	3,555	49,732	623,284
Subtotal	2,205,027	307,398	123,900	2,388,525
Accumulated depreciation:				
Roads and sidewalks	102,221	20,956	-	123,177
Buildings and improvements	284,643	18,910	25,000	278,553
Vehicles	148,440	23,790	23,307	148,923
Office furnishings and equipment	410,921	61,449	46,771	425,599
Subtotal	946,225	125,105	95,078	976,252
Net capital assets being depreciated	1,258,802	182,293	28,822	1,412,273
Net capital assets	\$ 1,619,583	\$ 451,683	\$ 298,534	\$ 1,772,732

# Village of Berrien Springs, Michigan

## Notes to Financial Statements June 30, 2007

### Note 4 - Capital Assets (Continued)

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
<b>Business-type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 299,830	\$ -	\$ -	\$ 299,830
Construction in progress	1,353,317	6,999,699	96,708	8,256,308
Subtotal	1,653,147	6,999,699	96,708	8,556,138
Capital assets being depreciated:				
Water and sewer distribution systems	4,353,470	96,708	-	4,450,178
Buildings and building improvements	93,654	53,817	25,000	122,471
Vehicles	135,676	16,293	15,480	136,489
Machinery and equipment	238,796	35,390	-	274,186
Subtotal	4,821,596	202,208	40,480	4,983,324
Accumulated depreciation:				
Water and sewer distribution systems	1,983,631	227,828	-	2,211,459
Buildings and building improvements	57,698	4,603	25,000	37,301
Vehicles	107,923	16,873	15,480	109,316
Machinery and equipment	158,627	16,461	-	175,088
Subtotal	2,307,879	265,765	40,480	2,533,164
Net capital assets being depreciated	2,513,717	(63,557)	-	2,450,160
Net capital assets	<u>\$ 4,166,864</u>	<u>\$ 6,936,142</u>	<u>\$ 96,708</u>	<u>\$ 11,006,298</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 26,691
Public safety	30,795
Public works	34,670
Recreation and culture	32,949
Total governmental activities	<u>\$ 125,105</u>
Business-type activities:	
Water	\$ 55,769
Sewer	209,996
Total business-type activities	<u>\$ 265,765</u>

# Village of Berrien Springs, Michigan

## Notes to Financial Statements June 30, 2007

### Note 4 - Capital Assets (Continued)

**Construction Commitments** - The Village has ongoing projects at year end. The commitments with contractors and engineers are as follows:

Project	Spent to Date	Remaining Commitment
Waste Water Treatment Plant Construction	\$ 5,681,317	\$ 2,845,071

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Waste Water Fund	\$ 96,649

This balance results from the Waste Water Fund overdrawing its share of cash from the Village's pooled cash arrangement.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Major Streets Fund	\$ 53,765
General Fund	Local Streets Fund	81,531
Total		<u>\$ 135,296</u>

The transfers from the General Fund to the Major and Local Streets Funds represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations.

# Village of Berrien Springs, Michigan

## Notes to Financial Statements June 30, 2007

### Note 6 - Long-term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. County contractual agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities -</b>						
Accrued employee benefits	-	\$ 6,450	\$ 240	\$ -	\$ 6,690	\$ 6,690
<b>Business-type Activities</b>						
General obligation bonds - Water and sewer general obligation bonds:						
Amount of issue - \$330,614	4.70% -					
Maturing through 2020	5.65%	\$ 261,416	\$ -	\$ 11,534	\$ 249,882	\$ 15,378
Revenue bonds - Sewer revenue bonds:						
Series A Bond						
Amount of issue - \$4,947,000						
Maturing through 2046	4.38%	-	4,947,000	-	4,947,000	55,000
Series B Bond						
Amount of issue - \$1,229,000						
Maturing through 2046	4.38%	-	1,229,000	-	1,229,000	12,000
Revenue bonds - Water revenue bonds:						
Amount of issue - \$415,000	4.70% -					
Maturing through 2016	5.50%	265,000	-	20,000	245,000	20,000
Total business-type activities		\$ 526,416	\$ 6,176,000	\$ 31,534	\$ 6,670,882	\$ 102,378

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Business-type Activities		
	Principal	Interest	Total
2008	\$ 102,378	\$ 95,617	\$ 197,995
2009	110,378	292,229	402,607
2010	113,378	287,065	400,443
2011	116,378	281,738	398,116
2012	120,378	276,508	396,886
2013-2017	677,954	1,287,790	1,965,744
Thereafter	5,430,038	4,007,349	9,437,387
Total	\$ 6,670,882	\$ 6,528,296	\$ 13,199,178

# **Village of Berrien Springs, Michigan**

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## **Notes to Financial Statements June 30, 2007**

### **Note 7 - Risk Management**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village participates in the Michigan Municipal League risk pool for claims relating to all risks.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 8 - Pension Plan**

The Village participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

The obligation to contribute to and maintain the system for police and fire employees was established by negotiation with the Village's competitive bargaining unit and requires a contribution from the employees of .6 percent of gross wages. The obligation for general employees was adopted by the Village's council and requires a contribution of zero percent of gross wages.

For the year ended June 30, 2007, the Village's annual pension cost of \$29,738 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0 percent to 8.40 percent per year, depending on age, attributable to seniority/merit, and (d) no increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll.

# Village of Berrien Springs, Michigan

## Notes to Financial Statements June 30, 2007

### Note 8 - Pension Plan (Continued)

	Fiscal Year Ended June 30		
	2005	2006	2007
Annual pension costs (APC)	\$ 21,182	\$ 26,198	\$ 29,738
Percentage of APC contributed	100	100	100
Net pension obligation	-	-	-
	Actuarial Valuation as of December 31		
	2004	2005	2006
Actuarial value of assets	\$ 2,148,760	\$ 2,261,624	\$ 2,408,797
Actuarial Accrued Liability (AAL)			
(entry age)	\$ 1,907,674	\$ 2,229,583	\$ 2,288,433
Overfunded AAL (UAAL)	\$ 241,086	\$ 32,041	\$ 120,364
Funded ratio	112.6%	101.4%	105.3%
Covered payroll	\$ 716,458	\$ 747,731	\$ 720,006
UAAL as a percentage of covered payroll	(33.65%)	(4.28%)	(16.7%)

## **Required Supplemental Information**

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# Village of Berrien Springs, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original / Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>			
Property taxes	\$ 439,246	\$ 448,182	\$ 8,936
State sources	160,000	178,696	18,696
Licenses and permits	5,154	6,018	864
Charges for services	291,500	278,476	(13,024)
Fines and forfeitures	1,000	1,214	214
Interest and rentals	14,600	86,401	71,801
Other	91,250	95,644	4,394
Total revenue	1,002,750	1,094,631	91,881
<b>Expenditures</b>			
General government:			
Village Council	107,625	107,411	214
Village president	8,475	6,956	1,519
Village clerk	52,857	45,191	7,666
Elections	2,091	633	1,458
Village treasurer	9,930	11,728	(1,798)
Administration	85,930	64,101	21,829
Village hall and grounds	27,175	20,462	6,713
Public safety:			
Building inspection/zoning administration	13,520	12,643	877
Ordinance enforcement	18,695	7,823	10,872
Public works	30,375	26,809	3,566
Recreation and culture:			
Shamrock Park	129,900	108,660	21,240
Grove, Wolf's Prairie, and Memorial Parks	6,485	7,394	(909)
Other:			
Community services	277,450	164,748	112,702
Capital improvements	114,408	25,376	89,032
Transfers to other funds	118,000	135,296	(17,296)
Total expenditures	1,002,916	745,231	257,685
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	(166)	349,400	349,566
<b>Fund Balance - Beginning of year</b>	2,240,075	2,240,075	-
<b>Fund Balance - End of year</b>	<u>\$ 2,239,909</u>	<u>\$ 2,589,475</u>	<u>\$ 349,566</u>

# Village of Berrien Springs, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Street Fund Year Ended June 30, 2007

	Original / Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>			
State sources	\$ 92,118	\$ 90,603	\$ (1,515)
Interest income	19,976	27,493	7,517
Other	5,608	2	(5,606)
Transfer from other funds	54,639	53,765	(874)
Total revenue	172,341	171,863	(478)
<b>Expenditures</b>			
Routine street maintenance	65,469	54,440	11,029
Tree/Shrub maintenance	5,433	5,916	(483)
Traffic services	5,084	2,601	2,483
Winter maintenance	5,674	5,175	499
Administration	4,315	4,147	168
Drainage	1,658	1,586	72
Total expenditures	87,633	73,865	13,768
<b>Excess of Revenue Over Expenditures</b>	84,708	97,998	13,290
<b>Fund Balance - Beginning of year</b>	522,088	522,088	-
<b>Fund Balance - End of year</b>	<u>\$ 606,796</u>	<u>\$ 620,086</u>	<u>\$ 13,290</u>

# Village of Berrien Springs, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Local Street Fund Year Ended June 30, 2007

	Original / Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>			
Property taxes	\$ 136,326	\$ 147,102	\$ 10,776
State sources	43,285	38,798	(4,487)
Interest income	12,625	14,461	1,836
Other	3,804	104	(3,700)
Transfer from other funds	82,458	81,531	(927)
Total revenue	278,498	281,996	3,498
<b>Expenditures</b>			
Routine street maintenance	83,599	83,989	(390)
Construction	570,516	278,145	292,371
Tree/Shrub maintenance	6,459	8,407	(1,948)
Traffic services	6,573	2,255	4,318
Winter maintenance	6,560	7,593	(1,033)
Administration	6,697	6,459	238
Drainage	2,225	2,069	156
Total expenditures	682,629	388,917	293,712
<b>Excess of Expenditures Over Revenue</b>	(404,131)	(106,921)	297,210
<b>Fund Balance - Beginning of year</b>	541,382	541,382	-
<b>Fund Balance - End of year</b>	<u>\$ 137,251</u>	<u>\$ 434,461</u>	<u>\$ 297,210</u>

# Village of Berrien Springs, Michigan

## Note to Required Supplemental Information June 30, 2007

### Note - Budgetary Information

Annual budgets are prepared by the finance committee on a basis consistent with generally accepted accounting principles, except that the Village budgets operating transfers as revenues/expenditures instead of "other financing sources/uses." Budgets are adopted for the General Fund and all Special Revenue Funds by the Village Council. Subsequent amendments are approved by the Village Council. The budget was not amended during the year.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The Village had one significant expenditure budget variance for the year ended June 30, 2007 as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund - Transfers to other funds	<u>\$ 118,000</u>	<u>\$ 135,296</u>

# **Village of Berrien Springs, Michigan**

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**Federal Awards  
Supplemental Information  
June 30, 2007**

# Village of Berrien Springs, Michigan

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## Independent Auditor's Report

To the Village Council  
Village of Berrien Springs, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Berrien Springs, Michigan as of and for the year ended June 30, 2007, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated September 21, 2007. Those basic financial statements are the responsibility of the management of the Village of Berrien Springs, Michigan. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Berrien Springs, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

September 21, 2007

Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Village Council  
Village of Berrien Springs, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Berrien Springs, Michigan as of and for the year ended June 30, 2007, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated September 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village of Berrien Springs, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Berrien Springs, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Berrien Springs, Michigan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe that the deficiency described in the accompanying schedule of findings and questioned costs constitutes a material weakness.



To the Village Council  
Village of Berrien Springs, Michigan

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village of Berrien Spring's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Village of Berrien Spring's response to the significant deficiencies identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we communicated to management of the Village of Berrien Springs in a separate letter dated September 21, 2007.

This report is intended solely for the information and use of management and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

September 21, 2007

**Report on Compliance with Requirements Applicable to Each Major Program and on  
Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Village Council  
Village of Berrien Springs, Michigan

**Compliance**

We have audited the compliance of the Village of Berrien Springs, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2007. The major federal program of the Village of Berrien Springs, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Village of Berrien Springs, Michigan's management. Our responsibility is to express an opinion on the Village of Berrien Springs, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Berrien Springs, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village of Berrien Springs, Michigan's compliance with those requirements.

In our opinion, the Village of Berrien Springs, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

To the Village Council  
Village of Berrien Springs, Michigan

## **Internal Control Over Compliance**

The management of the Village of Berrien Springs, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village of Berrien Springs, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Village Council, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

September 21, 2007

# Village of Berrien Springs, Michigan

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Federal Agency/Pass-through/Agency Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
<b>U.S. Department of Agriculture - Waste and Water</b>				
Disposal Systems for Rural Communities:				
Grant	10.760	N/A	\$ 3,350,000	\$ -
Loan			6,967,000	<u>6,760,411</u>
Total Waste Water Disposal Systems for Rural Communities				6,760,411
<b>U.S. Department of Housing and Urban Development -</b>				
Passed through the Michigan Strategic Fund - Michigan				
CDBG Grant	14.228	MSC 203020-EDIG	200,000	<u>-</u>
Total federal awards				<u><b>\$ 6,760,411</b></u>

# Village of Berrien Springs, Michigan

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

### Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Village of Berrien Springs, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### Note 2 - Loans Outstanding

The Village had the following loan balance outstanding at June 30, 2007. Their loan balance is not included in the federal expenditures presented in the schedule.

<u>Cluster/Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Waste and Water Disposal Systems for Rural Communities	10.760	\$ 6,176,000

# Village of Berrien Springs, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 2007

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
10.760	Waste and Water Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

# Village of Berrien Springs, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section II - Financial Statement Audit Findings

Reference Number	Findings
I	<p><b>Finding Type</b> - Material weakness</p> <p><b>Condition</b> - The Village did not record significant adjustments related to the Enterprise Funds' capital assets, including the recording of current year additions, the retainage related to ongoing construction contracts, and capitalizing interest related to construction of the Waste Water Treatment Plant.</p> <p><b>Context</b> - Overall financial responsibility</p> <p><b>Effect</b> - The related general ledger balances were not accurately recorded.</p> <p><b>Cause</b> - The Village budgets on a cash basis; therefore, fixed asset additions and interest are expensed throughout the year.</p> <p><b>Recommendation</b> - The Village should record the capital asset additions for the Enterprise Funds throughout the year, as well as capitalize interest payments made on financing related to ongoing construction projects. Retainages related to construction projects still in progress at year end should also be evaluated and recorded as part of the year-end adjustments.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Village plans to record the fixed asset additions and retainage payable as well as capitalized interest in the future.</p>
2	<p><b>Finding Type</b> - Material weakness</p> <p><b>Condition</b> - The Village did not record significant adjustments related to the Enterprise Funds' new bond issue, including accrued interest.</p> <p><b>Context</b> - Overall financial responsibility</p> <p><b>Effect</b> - The related general ledger balances were not accurately recorded.</p> <p><b>Cause</b> - The Village incorrectly recorded the proceeds received from the current year bond issue as revenue to be consistent with cash basis accounting.</p>

# Village of Berrien Springs, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2	<p><b>Finding Type</b> - Material weakness (Continued)</p> <p><b>Recommendation</b> - The Village should properly record the current year bond issue as a liability in the general ledger system. Also, accrued interest should be calculated and recorded as part of the year-end adjustments.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Village plans to record future bond issues as a liability, as well as calculate and record accrued interest as part of the year-end adjustments.</p>

### Section III - Federal Program Audit Findings

Reference Number	Findings
	None



September 21, 2007

To the Village Council  
Village of Berrien Springs, Michigan  
Berrien Springs, Michigan

Dear Village Council:

In planning and performing our audit of the financial statements of the Village of Berrien Springs, Michigan as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

### **Capital Assets and Related Bonds**

Material adjustments were identified by Plante & Moran, PLLC during the audit and recorded as adjusting entries. These adjustments were made to the Enterprise Funds' capital assets and long-term debt. During our audit, we noted that current year additions in the Water and Waste Water Funds had been expensed throughout the year. It was also noted that adjustments were not made at year end for contract retainages owed related to the ongoing Waste Water Treatment Plant (WWTP) construction, nor were the interest payments related to the WWTP construction capitalized. Additionally, the bond proceeds received during the year were recorded as revenue and required adjustments to be recorded as a liability. An adjustment was also made to record the amount of interest payable on this bond issue as of June 30, 2007. Although the interest payment amount was unknown at year end, an estimated amount should have been recorded.

## **Other Matters**

We offer the following recommendation, which we do not believe to be a significant deficiency:

### **Cash Receipts at Remote Location**

Significant cash receipts are collected at Shamrock Park throughout the busy season. Through our discussions with park and accounting personnel, we understand that there is no procedure in place to reconcile discrepancies between the register record of receipts and actual collections. The use of a more reliable receipting system should be implemented.

### **Statements on Auditing Standards 104 to 111 - The Risk Assessment Standards**

The AICPA issued Statements on Auditing Standards (SAS 104 - SAS 111) which will substantially affect the auditing process. The effective date for your audits will be for the audit of the financial statements for the year ended June 30, 2007. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards primarily require:

- The auditor to obtain a deeper understanding of: (1) the Village and its internal control, for the purpose of identifying the risks of material misstatement in the financial statements; and (2) what the Village is doing to mitigate those risks
- A more rigorous assessment of the risks of material misstatement based on that understanding, with additional emphasis on significant risks that call for special audit consideration
- A clearer linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks

We have invested substantial resources into the redesign of our audit process to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance to the requirements, which is tailored to the unique environment for Michigan municipals. As a result, our 2008 audit process will have many new features and elements built in. We will work with you to understand the elements, involve you in the information gathering process, and perform audit tests focused on the risks embedded in the Village's financial statements. To provide you with as much lead time as possible in the data gathering process, we will review the information needs and provide the necessary tools in the next several months.

### **Recent Revisions to State Transportation Funding Program**

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent, including the adoption of an asset management process for the Major and Local Street systems as well as a detailed resolution passed by the Village. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. These provisions sunset on December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

### **Municipal Finance Act Revisions - Reminder**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the Village's year end (December 31, 2007) and is good for one year thereafter.

### **Revenue Sharing**

The future of the State's revenue sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The magnitude of the State's deficit has become even more pronounced after the State's January and May 2007 revenue estimating conferences. According to economists, Michigan is still approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. It is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well. The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?

- **Statutory Revenue Sharing** - The statutory revenue sharing formula expires in 2007. Legislative action is required on this Act for appropriations to continue into 2008 and beyond.
- **Changes to Michigan's Tax Structure** - The Michigan Single Business Tax has been eliminated effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the Single Business Tax - called the new Michigan Business Tax - was approved by the Legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the Single Business Tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict. Rumors of further changes to Michigan's tax structure continue to circulate around Lansing as the Legislature continues their work on the State's fiscal year 2007/2008 budget and solving the estimated \$1.8 billion deficit that exists.

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments.

While the debate is in process and all indications point to a very busy fall season for the Legislature, there still remain considerably more questions than answers regarding long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal years 2006/2007 and 2007/2008. Local governments may need to react with budget amendments when these final decisions are made by the State.

This communication is intended solely for the information and use of management, the village council, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**



Sharon L. Vargo, CPA  
Partner